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Spratt Op-Ed on the Budget

Three years ago, the federal budget was $236 billion in surplus. In February 2001, the Office of Management and Budget (OMB) looked out ten years and saw only surpluses, $5.6 trillion in all, giving President Bush an opportunity few presidents have enjoyed.

We warned that this was a blue-sky forecast, and that half the surpluses came from Social Security and Medicare, which both parties had pledged not to borrow and spend again. Undaunted, the president and his party passed tax cuts taking $1.7 trillion out of the projected surplus.

As warned, projections of the surplus did not pan out. By February 2003, the Congressional Budget Office concluded that OMB's estimate was overstated by $3.2 trillion. The surplus from 2002-2011 was reduced to $2.4 trillion. All of this comes from Social Security, and all of it is committed to tax cuts or spending passed when surpluses were thought to be bigger. Since there is no surplus, spending initiatives and new tax cuts go straight to the bottom-line and add directly to the deficit. Knowing this, the Bush Administration, nevertheless, proposed nearly $2 trillion in new budget actions, going mostly to tax cuts but including $400 billion for Medicare drug coverage.

The president asked for $1.575 trillion in tax cuts, and the House obliged, passing cuts totaling a trillion dollars over ten years, but reducing the apparent cost to $550 billion by making most cuts expire within two to five years. The Senate added expirations and trimmed the tax cuts to $350 billion. No one expects these tax cuts to expire; and if extended as expected, they will add another trillion dollars to deficits over the next ten years.

Every July, OMB is required to take stock of budget actions in a "Mid-Session Review," which was released last week. Instead of surpluses, OMB sees deficits totaling $1.9 trillion between 2003 and 2008. OMB expects a record deficit this year ($455 billion) followed by a record deficit next year ($475 billion).

As bad as these deficits appear, they are likely to get worse. For example, next year's budget increases defense, but includes nothing for deployments in Iraq or Afghanistan, the cost of which is running $5 billion a month. The Pentagon will send us the bill in mid-year, knowing Congress will support the troops and pass a supplemental that could easily reach $25 billion and drive next year's deficit above $500 billion.

There are other omissions from OMB's forecast, and when adjustments for these are made, my staff on the Budget Committee sees the budget headed over a cliff – toward deficits of $4 trillion over the next ten years.

The Bush Administration blames these deficits on terrorism and recession, and both have taken their toll. But overestimation of the surplus is the biggest culprit, followed by tax cuts that were justified by surpluses that never materialized, and continue to be passed though there is no surplus to offset.

The Bush Administration calls these deficits "manageable," even while projecting that national debt will grow faster than national income for the foreseeable future. Otherwise, there is no shame, no shock, and no solution in the Mid-Session Review. OMB proposes "growth" as the solution, but assumes an economy rebounding to a real growth rate of 4% this year and growing over 3% over the next five years. Still, over that period, $2 trillion of new debt is incurred. This is what happens when a cyclical deficit becomes structural.

It took fifteen years to rid the budget of deficits during the Reagan-Bush era; and if there is any lesson from that experience, it's that the government does not just "grow out" of deficits. It took four deficit-reduction plans, and an arsenal of budget process rules, to move the budget from deficit to surplus. What's missing in OMB's review is any such plan or process, and any sense of urgency.

OMB argues that today's deficits are not as bad as the deficits of the 1980s, because as a percentage of the economy, they are smaller. But we need to look forward, not backward, to see why today's deficits matter. 77 million baby boomers begin retiring in 2008. Social Security and Medicare are running surpluses for now, but by 2016 both will turn cash-negative, and deficits in both will grow larger as the beneficiaries double in number.

Three years ago, we were paying down debt, positioning our budget to sustain the baby boomers' retirement. Now we are building up debt, leaving our children the burden of sustaining Social Security and Medicare, plus the obligation of paying interest on trillions of dollars in debt. The issue is not economic but moral.

Maybe the Mid-Session Review will serve a purpose if it helps us see that deficits are no longer hypothetical, but a clear and present danger, one that calls for urgent, bipartisan action.

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